New England
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Industrial Pattern of Bank Loans

When a business seeks a bank loan, its income is not the only factor that influences its ability to get the money. A plastics manufacturing firm, for instance, might pledge its inventories, but a processor of perishable products could have trouble getting this kind of financing. A bank would probably finance the purchase of new equipment for a laundry, but it would be less likely to finance highly specialized machinery for a factory. A gasoline station might get a mortgage loan where a seaside amusement concern would have more difficulty.

In short, some industries have better collateral than others. If a business has some kind of collateral it can get more money than it could by seeking strictly unsecured loans. The nature of the business will determine to a great extent how much an industry borrows from banks.

Wholesaling is a traditional example of an industry well suited to bank borrowing. Wholesalers' inventories are generally marketable and their business is standardized, easing the problem of credit evaluation. Wholesaling ranks second in New England in dollar volume of loans. Petroleum, chemicals, and rubber manufacturers are also heavy bank borrowers. Their standardized products make good inventory loans. This industry ranks third in the nation in volume of loans.

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Information on the distribution of bank loans among industries was gathered in three postwar business loan surveys of the Federal Reserve System. The surveys included all loans for business purposes whether classified as commercial, industrial, real estate, or instalment loans. Agricultural loans were excluded.

In New England the heaviest users of bank credit are retailers. They have both the largest number of loans and the biggest dollar volume. Second in amount of borrowing is wholesaling, and third is the metals industry. In the nation the metals industry ranks first, followed by retailing and the petroleum, coal, chemicals, and rubber group.

Intensity of Borrowing

An industry's use of bank credit depends on both its size and its intensity of bank borrowing. A big industry can rank high in bank borrowing even if a small number of firms use this kind of credit.

New England's top borrower, retailing, has 120,000 concerns, and about one-third of them have bank loans. This is not a very high percentage of borrowing firms, but the industry is so large in New England that it still ranks high in terms of total loans. The next largest industry, the service group, has only 44,000 firms. From a credit viewpoint, a better measure in the volume of credit use is relation to employment. There is more than $600 in business loans for each of the 527,000 employees in retail trade. This puts retailing about average in intensity of use of bank credit. When considered strictly on the basis of percentage of borrowing firms, it was near the bottom.

The accompanying chart shows the intensity of use of bank credit among New England industries. It shows the number of business loans per 100 operating businesses and the dollar volume of loans per employee. A substantial variation exists in each of the measures. The proportion of borrowing firms ranges from 30 to 90 per cent and the amount of loans per employee varies from $200 to $1300. Though some firms may have more than one loan, this will probably not significantly affect the proportion of borrowing firms.

New England industries fall roughly into three groups with regard to proportion of firms borrowing from banks. Petroleum, chemical, and rubber manufacturers stand alone at 90 per cent. The other manufacturing groups and wholesale trade are bunched at 50 to 65 per cent. The other nonmanufacturing groups fall in the third group at around 30 per cent.

One of the factors helping to explain the variation in the proportion of borrowing firms among industries is average business size. The five manufacturing groups which have the highest borrowing proportions also rank highest in average employment size. Metals manufacturers and petroleum and chemicals processors lead in average number of employees per business. The "other" manufacturing group, while lowest in average size among manufacturers, is still substantially larger than the largest of the nonmanufacturing categories per firm.

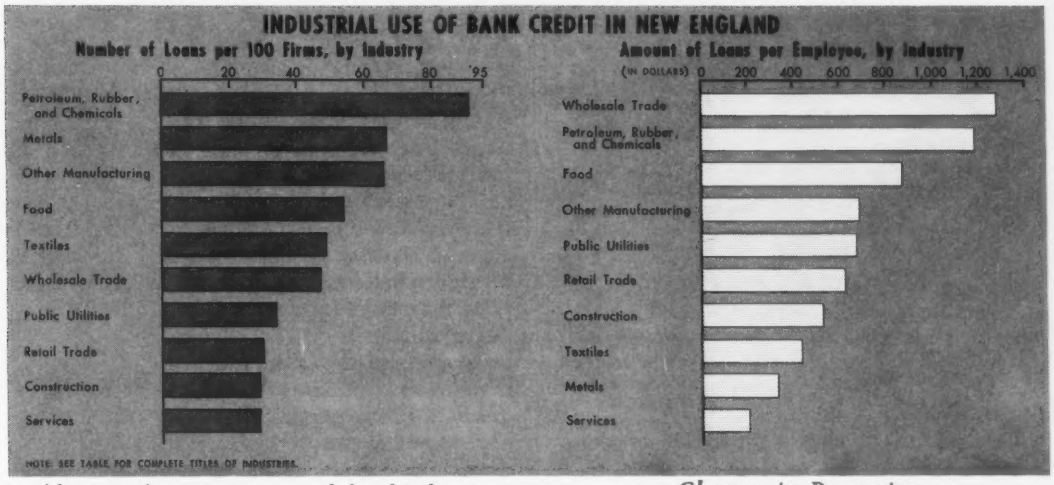
Those nonmanufacturing groups with small average sizes and low borrowing percentages probably obtain credit from suppliers and nonbank lenders to a greater extent than do manufacturers. In fact, the suppliers probably in most cases are either manufacturers or wholesalers, the groups which use bank credit most heavily.

Petroleum, chemicals, and rubber manufacturers and processors have an exceptionally high borrowing proportion, both as to businesses and to number of employees. The industry ranks next to the bottom in number of employees in New England, but its intense use of bank loans made it the third largest borrower. The nature of their collateral makes these manufacturers suitable for bank borrowing, and their

BUSINESS OF BORROWER

Business Loans of First District Member Banks

	Outstanding — October 6, 1957				% Increase, 1946-1957	
	Number	% Distribution	Amount ($ Mils.)	% Distribution	Number	Amount
Manufacturing and mining:						
Food, liquor, and tobacco	1,281	1.3	93.9	4.4	105	95
Textiles, apparel, and leather	2,608	2.7	177.5	8.4	55	117
Metals and metal products	4,363	4.5	236.9	11.2	74	171
Petroleum, coal, chemicals, and rubber	932	1.0	109.2	5.2	60	178
Other manufacturing and mining	7,552	7.7	174.5	8.2	162	159
Trade:						
Wholesale	8,989	9.3	260.4	12.2	33	89
Retail	36,065	37.0	349.7	16.5	100	244
Other:						
Sales finance companies	555	.6	125.3	5.9	37	186
Transportation, communication, and other utilities	4,494	4.6	164.1	7.7	26	297
Construction	9,812	10.0	102.9	4.9	240	409
Services	12,809	13.1	105.8	5.0	91	181
Real estate	5,003	5.1	188.1	8.9	n. a.	n. a.
Other nonfinancial	2,996	3.1	31.1	1.5	−22	−26
Total, all businesses	**97,459**	**100.0**	**2,120.0**	**100.0**	**93**	**183**



rapid expansion creates a need for funds.

The growing use of term loans (maturities of over a year) has also raised the petroleum, chemical, rubber group's volume of bank borrowing. Over two-thirds of the total amount outstanding to these concerns are term loans, compared to only one-third for all groups. This is partly because firms in the industry are large and in a better position to get term loans. These loans are a substitute for other sources of long-term credit, such as publicly offered bonds and private bond sales to insurance companies.

Metals manufacturers rank next to the lowest in amount of bank borrowing per employee at $330. This amount seems especially low in view of the fact that two-thirds of the firms are using bank credit. Evidently, products of metals manufacturers are generally too specialized to provide a good type of collateral. Loan sizes are smaller than in other lines where inventories are more saleable.

Textile manufacturers also rank low in the amount of loans per employee. Much of the short-term borrowing by these firms is in the form of sales of accounts receivable—factoring—which is carried on by only a few banks. Most of this type of lending is conducted by commercial finance concerns, who in turn borrow heavily from banks. Also, the textile industry has a reduced need for credit because it is declining in the region.

Loans to sales finance companies and the real estate group have been omitted from the analysis. Most of this type of lending by New England banks goes to companies with headquarters outside the region and "outside" loans have been subtracted from the totals in the investigation. These borrowers are mostly intermediaries and lend in turn to others.

Changes in Borrowing

The amount of business loans has tripled in the postwar years in New England. The biggest increase in borrowing was in the construction industry, which grew at double the average rate. The rise accompanied the general growth of the industry in the postwar years.

Although wholesalers traditionally lean heavily on bank credit, their loans rose less than the average in the past 10 years. The rate of growth was smaller because lending to this group was already heavy, making increases smaller when calculated in percentage terms. The failure of wholesale food prices to rise as much between 1946 and 1957 as other prices also contributed to the slower growth. The course of food prices also resulted in a smaller rate of growth for the food, liquor, and tobacco manufacturers.

The recent recession has caused some changes in bank lending since the date of loan survey, October 1957. Total business loans are down and the structure has changed somewhat because of the varying effects of the recession on different industries. The largest decline is in manufacturing, which is down almost 10 per cent. The construction and services industries have continued to increase their borrowing. These short-run fluctuations are not sufficiently large, however, to affect the general pattern of industries' borrowing from banks.

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Business Recovery and Capital Spending

Manufacturers are responding to improving business conditions with mixed reactions in their capital spending.

Following a pickup in sales, New England producers have revised upward by 1 per cent their spring estimates of capital expenditures in 1958. But the increase was all in the nondurable-goods industries, which had the best sales pickup. There was a decline in fall estimates of durable-goods manufacturers.

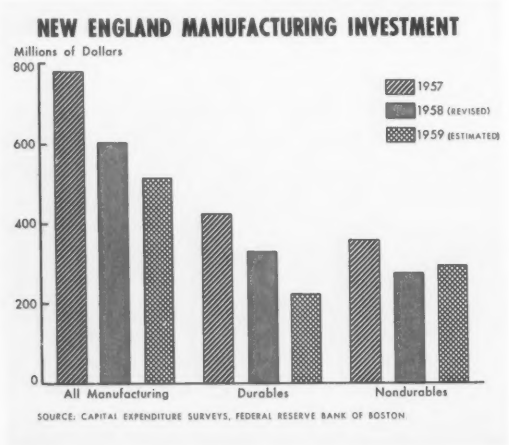
Most manufacturers expect sales to increase in 1959, but still expect another decrease in capital spending. All the decline is centered in hard-goods producers, with soft-goods manufacturers expecting an increase.

The estimates are based on reports of 150 firms responding to the fall followup survey. Total expenditures were projected for each industry on the basis of reports of these firms, which account for 15 per cent of New England's manufacturing employment.

The Federal Reserve Bank of Boston's fall survey shows that New England manufacturers expect capital expenditures to reach $601 million this year, a 23 per cent reduction from last year's record $780 million.

The cutback from 1957 is about the same rate as in the nation. Total capital investment by all United States manufacturers is expected to be 25 per cent less this year than in 1957, according to the most recent survey made jointly by the U. S. Department of Commerce and the Securities and Exchange Commission.

In New England the durable-goods and nondurable-goods industries expect to share equally in the decline. Producers of hard goods in this area reduced their capital investment less than those in the nation, showing a firmer resistance to cutbacks. Their dollar volume of capital expenditures is greater than the soft-goods industries, the reverse of the national situation.



The printing, chemical, and lumber industries were the only New England groups to raise their outlays over last year's levels. The most significant decreases dollarwise were in the nonelectrical machinery, transportation, apparel, and paper industries.

Reacting to the improvement in business conditions and reflecting the short-run nature of pessimism, the nondurable industries in this area have increased their spring plans by 5 per cent. Harder hit by the recession and slower to experience the effects of the recovery, the durable-goods industries further reduced their spring estimates by 2 per cent.

Spending for new plant construction rose above the earlier estimates 15 per cent in the soft-goods and 9 per cent in the hard-goods sectors. This rise, however, was partially offset by a 7 per cent downward adjustment in machinery and equipment outlays made by hard-goods manufacturers. The original distribution of 1958 investment funds between expansion and replacement was followed closely, reflecting the rigidities inherent in this type of planning.

Plans for this year's investment were made during unfavorable business conditions, and manufacturers were reluctant to apportion large sums to long-term commitments. Moreover, the inflationary trend in the cost of capital goods was at least temporarily halted, eliminating the increase attributable to rising prices present in recent years.

Another reason for the decline in capital investment is excess capacity. Many manufacturers, particularly those producing durable goods, seem to feel that the very large additions to plant and equipment made during the last three years have resulted in adequate or even excessive capacity for the time being. The survey found that more than one-half of the reporting firms, especially those in the metals and nonelectrical-machinery industries, still have a substantial amount of spare capacity, despite a sharp pickup in production since last spring. About one-third of the nondurable firms, and almost three-fourths of the durable firms were operating at less than 80 per cent of capacity in October. The average preferred rate of production is at 90 per cent of capacity, according to a survey by McGraw-Hill Publishing Co.

Reflecting recent unfavorable business conditions and the adequacy of current capacity in some industries, outlays are greater this year for replacement than for expansion of capital facilities. New England producers have allocated 58 per cent of their total investment funds for replacement purposes. Prior to this year, the relative proportion for replacement had fallen for three years to a point where it equaled the amount spent for expansion in 1957.

The nondurable industries are using only 35 per cent of their total 1958 capital expenditures for expansion in contrast to 43 per cent last year. The proportion planned for expansion in the durable industries also decreased by 8 per cent since last year, but funds for this purpose almost equal those for replacement. In both industry categories the greatest reductions were made in plant construction expenditures rather than in machinery and equipment.

Current estimates indicate that the total dollar volume going for plant construction in 1958 will drop 28 per cent below that of 1957, while spending for machinery will be off 20 per cent. This indicates that firms are still fulfilling long-term commitments begun in past years, and are not yet willing to initiate extensive new long-range projects.

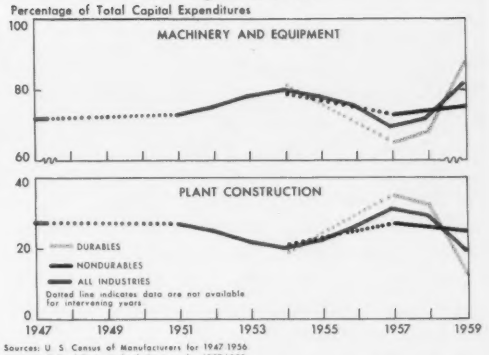
The fall survey indicated that disappointing sales and earning records for this year did affect current programs. In comparing their present 1958 estimates with those made earlier, only 18 per cent of all firms reported higher sales than expected, only 16 per cent had higher earnings. The fact that more durable firms than nondurable firms had lower 1958 sales and earnings than originally anticipated partially explains their downward revision in investment.

Plans for 1959

Capital expenditure plans for 1959 are still in the formative stage. As these plans are quite sensitive to changes in business conditions, most firms have a "wait-and-see" attitude toward investment spending in the near future. The sentiment of the few firms willing to make spending plans for 1959 is one of greater caution. More than one-half of the 130 firms reporting preliminary plans expect to spend less next year even though the overwhelming majority of these same firms expect their sales to increase in 1959.

Capital investment programmed by all industries in New England for next year is 14 per cent less than in 1958, a smaller decline than occurred from 1957 to 1958. In the postwar period, however, manufacturers consistently have overestimated their actual outlays in periods of declining business, and understated them during the recovery stages. Actual capital investment in 1959 will probably exceed the level currently predicted, if the upturn in business continues.

TRENDS IN CAPITAL SPENDING
New England 1947-1959



Sources: U. S. Census of Manufacturers for 1947-1956
Federal Reserve Bank Surveys for 1957-1959
The ordnance, tobacco, and petroleum industries have been excluded from all calculations

The proposed drop in next year's capital outlays is entirely due to cutbacks planned by producers of durable goods, and primarily centers in their programs for new plant construction. While their expenditures for machinery and equipment in 1959 are estimated to be only 13 per cent below the 1958 level, their outlays for plant construction will be three-fourths less than this year's $104 million. This indicates that many of these firms feel a continued pickup in demand during the coming year will not entirely eliminate all the spare capacity now on hand.

Producers of soft goods are quicker to feel the effects of improved business conditions, and are traditionally more optimistic during the initial phases of recovery. In contrast to the estimated 33 per cent reduction in capital investment of durable-goods producers for 1959, the nondurable-goods industries expect to raise their outlays by 7 per cent. Particularly large increases are planned for the food, paper, chemical, and rubber industries. The machinery and transportation industries currently expect to make the largest cuts in next year's spending programs.

New England businessmen appear quite optimistic for the future, but are hesitant to express this attitude in their investment plans until their hopes are more fully realized. New and unfilled orders are increasing every month, and higher sales and earnings are already evident, but employment and total manufacturing output remain well below peak levels. As these immediate business conditions show further improvement, manufacturers will undoubtedly increase their capital expenditures over present estimates for 1959.

Consumer Prices and Business Recessions

Consumer prices behaved differently in each of the three postwar United States recessions. Prices rose during the recession which began last year and finally fell in August as business activity was rising. The lower price level, which held during September and October, resulted from the first decline since August 1956.

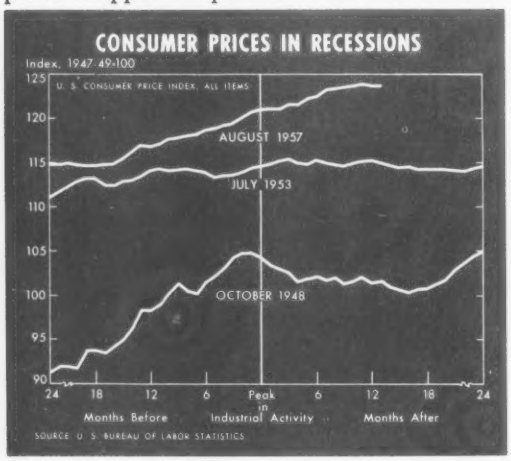
Prices fell during the first postwar recession, 1948-49, and changed little during the business decline of 1953-54. But not all prices which make up the Consumer Price Index behaved in the same pattern.

In all three recessions service prices continued to rise, showing little or no sensitivity to business conditions. The index for service prices stood at 143 per cent of the 1947-49 average in September.

Personal care costs actually declined somewhat during the first two postwar recessions. These costs rose during the recent recession, but more slowly than before the business decline started.

Commodity prices have responded more than service prices to cyclical pressures. During the first two postwar recessions commodity prices declined several points. They continued to rise during the recent recession until several months after the low point in industrial activity had passed. Prices of the group of commodities other than food did respond to changes in economic activity by turning down last December and up in June.

Food prices are the major group to demonstrate markedly differing behavior in the three recession periods. During the first postwar downturn food supplies were abundant and food prices dropped 10 per cent. In 1953-54 food supplies were adequate and their prices behaved largely in a seasonal manner. Meat supplies were short during the past year, and freezes in southern growing areas reduced supplies of fresh fruits and vegetables during winter and spring. As products from other growing areas and increased meat supplies hit the market in August and September, food prices declined.



Prices of commodities other than food turned down during each of the three recessions. Prices of nonfood soft goods, led by apparel, turned down sharply in 1948-49 but very little in 1953-54. The reverse behavior was true of durable-goods prices, partly because war-induced demand was still quite strong in the earlier period. In the 1957-58 recession prices of both groups of nonfood commodities declined about 1 per cent, in part seasonally.

In all three recession periods, then, service prices were somewhat insensitive to business declines. Food prices appear as most sensitive to changes in supplies and in consumer demand. But as the recent recession demonstrates, if foodstuffs are in short supply and incomes are maintained, food prices can rise during a recession. Prices of other commodities appear to be modestly cycle-sensitive.

Rise Since 1956

Following several years of price stability, the total index turned upward in April 1956 and, with one exception, did not turn down again until August 1958. Over that period, the index for all items together rose almost 8 per cent.

Several groups of items had much sharper price advances than others. The largest gain was in transportation charges, both public and private. The increase amounted to nearly 12 per cent over the 30-month period. Medical care costs rose 11 per cent during the same period. Both these costs have continued to increase since August.

Food prices advanced approximately 10 per cent. Meat prices increased nearly one-fourth, in response to growing demand for a supply diminished by drought and slaughter in 1953-56, while most other food group prices moved up only 6-8 per cent. At least part of the food price increase may also be attributed to the greater degrees of preparation and packaging, such as partial precooking and freezing demanded by consumers now.

Costs of personal care and of reading and recreation rose in line with those of all items

combined. Lesser increases occurred in prices of housing (6 per cent) and the miscellaneous group of other goods and services (5 per cent). From the consumers' point of view, the star performers were apparel costs, which increased only 2 per cent during the 30-month period. Largest apparel cost increases were for shoes. Men's and boys' clothing prices were upped about 2 per cent while those of women's and girls' clothing remained relatively unchanged.

Another way of looking at price trends is to compare the trend of goods and services. Since April 1956, prices of goods rose 7 per cent, led by the 10 per cent advance in food prices. Meanwhile, charges for services increased 9 per cent. Principal service price boosts occurred for transportation and for medical care.

The differing behavior in prices of services versus goods may be explained in part by productivity differences and in part by wage competition. Technological improvements have directly increased productivity of workers in the making of goods. It is difficult to increase productivity in service trades. When the benefits of increased productivity of goods are shared with workers through wage increases, wages usually rise for service workers. The latter increases are more likely to show up in prices, and as long as demands for services continue to grow, such prices can be increased.

There is no index of prices for New England but there is one for Boston and one for Massachusetts. Both these indexes moved much as did the national index. Gains from April 1956 were somewhat greater than the national average, reaching 9 per cent for Boston and 10 per cent for Massachusetts. These greater gains are traceable to a twice as rapid rise (22 per cent) in costs for medical care in Boston and a somewhat greater gain (12 per cent) for food prices for both Boston and Massachusetts. Other differences were not as marked.

Recent Price Trends

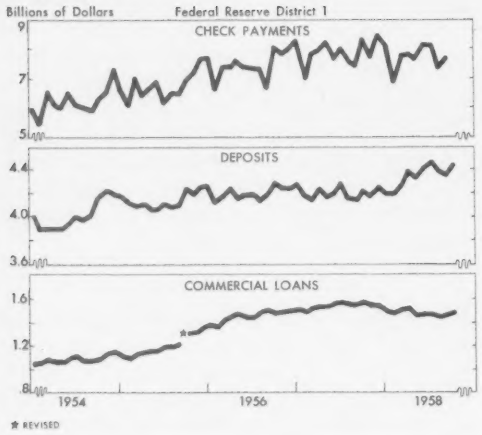
Introductory prices of new automobiles are about 3 per cent greater than a year ago. Had it not been for a further decline in food prices, new car prices might have caused the October index to advance slightly from September's. Increased supplies of beef and pork in particular and some other foods may continue (food prices reached a peak in July and declined in August and September) to depress the prices of some foods. Upward pressure will probably continue from service prices.

A combination of declining food prices and rising service costs resulted in the long period of relative stability in the index preceding the rise begun in April 1956. Few people expect the rate of increase in the Consumer Price Index during the past 30 months to be matched during the next year.

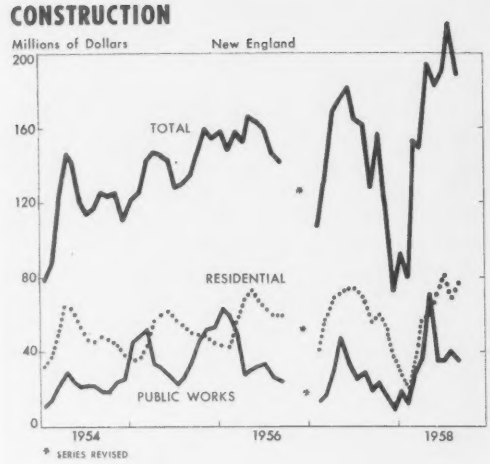
How Are Consumer Prices Measured?

The generally accepted measure of the prices consumers pay for goods and services is prepared by the U. S. Bureau of Labor Statistics. This measure, sometimes inaccurately referred to as the Cost of Living Index, is named the Consumer Price Index, or, more completely, "The Index of Change in Prices of Goods and Services Purchased by City Wage Earner and Clerical Worker Families to Maintain Their Level of Living." In 1950, the mythical average family indicated in this title consisted of 3.3 persons and had $4,160 after tax income. Consumption patterns of families having more than $10,000 income or living outside cities were excluded from the base setup for the index. Prices of most of the 296 items included in the index are checked every month in the five largest cities in the U. S., and once every three months in 41 smaller cities. Prices of food, cigarettes, fuels, and gasoline are checked every month in each of the 46 cities. New items are substituted for old as indicated by changes in people's purchases. Most prices are obtained by personal visits of field agents. A few are collected by mail. Discounted prices are used if available to all customers and not just to selected groups or individuals. Sales prices are used if the sale is of sufficient duration to enable most customers to take advantage of it, usually one week in the case of foodstuffs or two weeks in the case of other commodities. A customer can "beat" the index on prices by buying during special short sales, arranging discount privileges, or shopping in basements which feature lower prices.

BANKING



CONSTRUCTION



MANUFACTURING INDEXES (seasonally adjusted)	MASSACHUSETTS (1950–52 = 100)	Per Cent Change from:		NEW ENGLAND (1950–52 = 100)	Per Cent Change from:		UNITED STATES (1947–49 = 100)		
	Oct. '58	Sept. '58	Oct. '57	Oct. '58	Sept. '58	Oct. '57	Oct. '58	Sept. '58	Oct. '57
All Manufacturing	110	+ 1	− 1	108	− 1	− 4	140	139	143r
Primary Metals	90	− 3	− 6	91	+ 2	− 4	118	113r	128r
Textiles	47	0	− 8	66	0	0	n.a.	103	98r
Shoes and Leather	114	+ 5	+ 2	115	+ 5	+ 3	n.a.	n.a.	103r
Paper	106	+ 3	+ 3	118	0	0	n.a.	167	161r

r = revised

	NEW ENGLAND	Per Cent Change from:		UNITED STATES	Per Cent Change from:	
	Oct. '58	Sept. '58	Oct. '57	Oct. '58	Sept. '58	Oct. '57
BANKING AND CREDIT						
Commercial Loans ($ millions) (Weekly Reporting Member Banks)	1,468	0	− 7	29,737	0	− 6
Deposits ($ millions) (Weekly Reporting Member Banks)	4,443	+ 2	+ 5	100,245	0	+ 7
Check Payments ($ millions) (Selected Cities)	8,734	+14	+ 5	212,894	+ 9	+ 4
Consumer Installment Credit Outstanding (index, 1950–52 = 100)	211	− 1	− 4	222	0	− 1
TRADE						
Department Store Sales (index, seas. adj. 1947–49 = 100)	125	+ 5	+ 8	135	− 1	+ 5
Department Store Stocks (index, seas. adj. 1947–49 = 100)	142	+ 1	+ 3	152p.	+ 1	− 2
EMPLOYMENT, PRICES, MAN-HOURS, & EARNINGS						
Nonagricultural Employment (thousands)	3,496	0	− 3	51,210	0	− 3
Insured Unemployment (thousands) (excl. R. R. and Veterans programs)	129	− 8	+24	1,759	−10	+42
Consumer Prices (index, 1947–49 = 100)	125.8 (Mass.)	0	+ 2	123.7	0	+ 2
Production-Worker Man-Hours (index, 1950 = 100)	83.5	0	− 8	96.6	− 2	− 8
Weekly Earnings in Manufacturing ($)	76.83 (Mass.)	− 1	+ 3	84.35	− 1	+ 2
OTHER INDICATORS						
Construction Contract Awards ($ thous.) (3-mos. moving averages, Aug., Sept., Oct.)						
Total	187,444	− 6	+26	3,330,509	− 3	+25
Residential	72,768	− 4	+18	1,501,965	+ 1	+25
Public Works	31,637	−14	+35	592,228	−10	+56
Electrical Energy Production (index, seas. adj. 1947–49 = 100)*	198.8	0	+ 5	238.5	0	+ 4
Business Failures (number)	61	+20	− 2	1,271	+22	+13
New Business Incorporations (number)	914	+11	+34	13,633	+ 5	+21

*Figure for last week of month

p. = preliminary
n.a. = not available